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PACIFIC TELESIS
Group Washington

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

April 12, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: *CC Docket No. 96-45, Federal-State Joint Board on Universal Service*

On behalf of Pacific Telesis Group, please find enclosed an original and six copies of its *"Comments"* in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

GINA HARRISON/AFC

Enclosures

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	
Federal-State Joint Board on Universal Service	CC Docket No. 96-45

COMMENTS OF PACIFIC TELESIS GROUP

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SUMMARY

Education and Rural Health Care

States' rights should be preserved to address access to technology needed by educational and health care institutions within each state.

- Educational and health care needs may vary among states.
- Federal guidelines should be established as a framework for state decisions;
  - could be in the form of funding dollars per student or per school.
  - could be in the form of establishing minimum standards.

Education Access

- In California, our Education first initiative provides:
  - up to 5 ISDN lines per school, library or community college;
  - associated inside wiring;
  - free installation and free intraLATA usage for 1 year;
  - usage discount (flat-rated) after the first year.

- Access to the network is only one (small) piece of enabling advanced access to technology in schools and libraries.
  - Hardware, software, network integration, and human resources issues are not addressed by the Telecommunications Act of 1996.

Health Care

- In California, one ISDN line per eligible provider is appropriate to provide access to various voice, video, and data applications

- For more advanced services, a provider must prove it has made necessary investments in equipment and training, and the requested service comports with federal guidelines.

High Cost

- The Fund should be sized to cover both today's Universal Service Fund and Carrier Common Line revenues.

- All high cost areas should be considered (not just rural).

- Census Block Group should be the study area.

- California is in the process of implementing a State Universal Service System;

    - using a flexible proxy cost model to determine the subsidy amount.

- The Federal system should provide a level of high cost subsidy; states should be free to add additional subsidy amounts.

- All providers should be subject to surcharge on interstate revenues to create the fund.

Before the
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In the Matter of	
Federal-State Joint Board on Universal Service	CC Docket No. 96-45

COMMENTS OF PACIFIC TELESIS GROUP

Pacific Telesis Group files these comments in response to the Notice of Proposed Rulemaking ("NPRM") released March 8, 1996. Serious issues must be resolved if universal service for all Californians, Nevadans, and the American public is to continue into the next century. Traditional mechanisms that have funded contributions to make basic service universally available are no longer viable with the rapid growth of competition. We welcome the Commission's efforts to develop new methods to ensure universal service. We are also pleased that Congress and the Commission are looking to increase access to technology in schools and libraries. In California, bringing advanced services to the schools has been our priority for the last few years. In fact, we have already instituted a universal access to advanced telecommunications program for schools and libraries in California.

In these comments, we will describe our proposals for a federal program which will advance access to technology and universal service.[1] Our proposal for a fund which assists the highest cost areas of the country meets the criteria in new section 254 of the Communications Act of 1934 as added by the Telecommunications Act of 1996 ("the Act") to preserve and advance universal service. We advocate that the fund be composed of contributions from the largest number of providers so that the burden of universal service is borne equitably by all telecommunications providers.

I. EDUCATIONAL ACCESS TO TECHNOLOGY

The Commission seeks comment on what services meet the Act's requirements for access to advanced services by schools and libraries.[2] In addition, the NPRM seeks information on how to support those services through a discount program, and how the interstate fund should be structured. Our Education First program embodies many of the goals with which the Commission is concerned and which the legislation requires. We have been a leader in

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[1] Because we are a large corporation, with responsibilities as a Carrier of Last Resort, and various subsidiaries in diverse markets, we have many different issues that are of particular importance to us and which we have chosen to discuss in detail. Even though the 25-page limit does not allow us to discuss each issue raised in the NPRM, the Commission should not conclude that the issues we have been unable to directly address are not of concern. We expect various special interests who file in this docket to use their entire page limit to discuss one issue. We urge the Commission to keep in perspective that the Act requires competitively neutral, nondiscriminatory rules that are fair to all providers. 47 U.S.C. §254. The number of pages devoted to a particular issue by a carrier should not be determinative of the true importance of an issue. We are, of course, willing to provide further information on any issue raised in the NPRM, whether or not we have been able to discuss it in these Comments.

[2] NPRM at 77-80.

promoting and funding educational access to technology. Two of our most successful programs are:

1. Education First -- with the goal of connecting all schools and libraries; we offer free installation and usage of up to 5 ISDN lines for 1 year, reduced rates after 1 year.

2. California Research and Education Network ("CalREN") -- a $25 million trust fund to stimulate development of new applications for high speed data.

We will discuss these initiatives in more detail below. We are committed to connecting educational institutions to the information superhighway, and our efforts in California can be used as a model for implementing universal access under the Act.

A. Within Federal Guidelines, States Should Determine What Advanced Services Schools And Libraries Need

The Commission seeks comment on what additional services to include for schools and libraries under Section 254(h)(1)(B).[3] In California, we have already implemented an initiative which gives access to advanced services to all not-for-profit schools and libraries.[4] Our Education First initiative can be a model for how to provide access to advanced services to schools and libraries. As noted above, Education First includes free installation of up to 4 ISDN lines at each school or library, plus inside wiring for up to 2 locations in each school, one year of

[3] NPRM at 78.

[4] Our program also includes community colleges.

free (intraLATA) usage[5] and one additional ISDN line (for a total of 5 lines) and associated inside wire to connect individual school sites with a mutually agreed to hub location (e.g., a district office).

Each ISDN line enables educational institutions to access the Internet at 128 kbps. Also, videoconferencing is available at near real time speed. Videoconferencing, or interactive telelearning, uses two-way interactive video for distance learning. Classrooms are connected using ISDN and videoconferencing hardware. Teachers and students at one site can see, hear and interact with participants at other sites. Videoconferencing is used today for collaborative learning, resource sharing and customized instruction. Videoconferencing using ISDN is viable for both roomsized or desktop distance learning systems.

We recognize that the needs of educational institutions may vary from state to state and that a definition of what advanced service is needed for education in one state may not be appropriate in another. To accommodate the differences between states, the Commission should permit each state to make the determination of what its schools and libraries need, as long as certain guidelines are met. These federal guidelines may set up minimum standards that must be met, or may describe limits on what services the federal fund will cover.

A one-size-fits-all approach to technology in the classroom may cause some states to lag behind the national average while other states have no incentive to excel. In California, for example, the access to advanced services for schools and libraries should include a maximum of 5 ISDN lines per eligible school or library. Leaving the decision up to State commissions so that

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[5] The FCC authorized a waiver of SLC charges on these lines for the first year. Pacific Bell Petition for Interim Waiver of Part 69.104 to Offer ISDN-equipped Access Lines to California's Schools, Libraries and Community Colleges, FCC 95-496, Order, December 13, 1995.

the available technology, architecture, and educational needs of their particular states can be addressed will comport with the requirements of Section 254 and the concept of a "bona fide request".[6]

The Commission must recognize that access to the advanced services will not ensure that technology will be available in the classroom or library. As the National Information Infrastructure Advisory Council ("NIIAC") found in its report *Kickstart Initiative; Connecting American's Communities to the Information Superhighway*, access to the network and connections within the schools represents only about 12% of the cost of getting technology into the educational environment.[7] The other components are costs for hardware and software, content, costs for professional development, and systems operation. Under the Act, telecommunications providers fund access to the network and connections within the schools. A different funding mechanism must be designed for the remainder of the components needed for a successful program.[8]

B. The Educational Discount Should Be Formulated To Meet The Needs Of The Institution

The Commission seeks comment on how to formulate an educational discount pursuant to section 254(h)(1)(B).[9] We have already developed and tariffed an educational

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[6] NPRM at 85.

[7] Kickstart Initiative, p. 95.

[8] We have collaborated with many public and private entities in order to facilitate the integration of the these other components so that the benefits of access to education technology can be realized in California. Attached as Appendix A is a list of our collaborative ventures.

[9] NPRM at 83.

discount price in California. Our Knowledge Network ISDN rate applies to usage of the ISDN line after the free first year of service. The installation and first year usage and Subscriber Line Charges ("SLC") charges are waived. Attached as Appendix B is our Knowledge Network tariff.

In formulating our reduced tariffed price, we worked with schools and libraries to determine a pricing structure that met their needs. Prices which vary by amount of usage and from month-to-month introduce an element of unpredictability that schools told us they could not tolerate.[10] Flat rate service was the answer. Our Knowledge Network ISDN offering is therefore priced at a flat rate of $40 per month for local ISDN usage.[11] We propose that the Commission include flat-rate service among the appropriate discount options schools and libraries may choose, but give providers and end users discretion in how to formulate discounts which best meet the needs of both.

There is one major difference between our Education First program and the requirements of the Act. Our Education First initiative, and the associated discount usage price, is targeted only at the videoconferencing and Internet access capabilities of ISDN. The discount does NOT cover basic access to the network. Yet, section 254 appears to require a discount on both the advanced services offered to schools and libraries and any services identified as meeting universal service obligations.[12] A discount covering Centrex or regular business exchange service (1 MB) will significantly increase the size of the fund.

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[10] Our normal ISDN rate is assessed during the day on a per-minute-of-use basis. Schools pay normal rates for Centrex or measured rate business service (1MB).

[11] We were unable to persuade the California Commission to allow the discount to extend to all intraLATA usage. We are not currently able to offer an educational discount rate for intraLATA toll.

[12] NPRM at 82.

C. The Commission Should Ensure That The Funding Mechanism Meets Certain Criteria.

Whatever the form of the Education Fund, certain critical requirements must be met. First, the Commission should ensure that states in which educational access to technology has already begun, or is well on its way, should not be made to subsidize states in which no effort has yet been made to bring technology to the classroom. Providers in states such as California that already are supporting educational access should not be disadvantaged by the chosen funding mechanism. One way to ensure this is to allow the states to take over this function. As we stated earlier, states are in the best position to evaluate and dictate the type and level of advanced service needed by institutions within the state. Each state could be required to set the level of service that satisfies Section 254(h)(1)(B). Therefore, the fund should be administered state by state so that state goals for those services will be advanced. An individual state should not be required to subsidize other states. Such a subsidy would not meet the requirements of a nondiscriminatory and equitable funding mechanism.[13]

Second, the Commission should recognize that each state may have very different services which meet the section 254 (h)(1) standard within the state. The fund should recognize such differences in determining the levels of funding to be given to each state. Section 254 (h)(1)(B) contemplates that state commissions will set the discount rate necessary for intrastate services. To the extent that state commissions have the right to set the discount in their states, the Commission should set guidelines so that interstate providers will not be unduly burdened by those state requirements. The federal guidelines should provide acceptable parameters on both

[13] 47 U.S.C. §254(b)(4).

the necessary discount and how the fund is distributed. One alternative is for the Commission to designate a particular amount of funding per-student or per-school, as an objective, specific and predictable mechanism.[14] Or, the Commission could set up a federal fund covering certain basic services, which could then be added to by independent state funds, if additional services or funding is desired by the state commission.

The Education Fund -- and all other universal service funds -- should be financed by all telecommunications providers in order to equitably distribute the burden of universal service.

D. Our California Initiatives Have Been Extremely Successful

In April 1994 we announced our Education First initiative, designed to provide access to advanced services for our schools, libraries and community colleges. To date, we have wired over 1000 schools and libraries in California, with another 700 schools underway. We plan to complete the wiring of 2500 of the state's 10,000 schools and libraries by the end of 1996.

Moreover, in 1993, we created the California Research and Education Network ("CalREN"), a $25 million trust fund to stimulate the development of new applications for high-speed data services. Through a competitive selection process, CalREN awards grants for development of cross-industry applications in health care, education, government and commerce.

[14] 47 U.S.C. §254(b)(5).

CalREN has already funded 25 projects devoted to education; 365 educational institutions in California have become linked to the information superhighway as a result of CalREN.

In addition, we were one of the sponsors of NetDay 96, in which we donated over 1,000 kits to facilitate wiring and hookups to schools throughout California. Over 1200 employees of Pacific Bell participated in this event. On NetDay, March 9, 1996, over 2,000 schools were wired for access to the superhighway (including the high school in Concord California that hosted President Clinton and Vice-president Gore.)

Because we recognize that integrating technology into education reform is not simply a matter of installing wiring, we have urged other businesses to become involved in funding other aspects of the information superhighway in schools. For example, in 1994, we donated $600,000 to the California-based Detwiler Foundation "Computers For Schools" program that collects, refurbishes, and distributes donated computers to California classrooms. To date, 9600 computers that otherwise would have been discarded have already been refurbished and given to California schools through this program.

II. HEALTH CARE ACCESS TO TECHNOLOGY

The Commission also seeks comment on what services to provide to health care providers that are necessary for the provision of health care.[15] We note that universal service is an evolving concept. To address current needs, we believe that the access given to rural health care providers should include, at a minimum, one ISDN line per eligible health care provider. ISDN can support voice, video and data applications necessary in the health care field. For

[15] NPRM at 90.

example, ISDN lines allow a health care provider to conduct blood pressure and ECG testing, monitor vital signs, transfer certain images in real time and offer continuing medical education.

There may be instances in which health care providers need higher capacity lines to provide high-resolution images or deliver images at speeds necessary in emergency situations. In order to be able to receive these more advanced services, a provider would be required to make a bona fide request which will show that the provider has made the investment in the diagnostic equipment and related training which requires the lines. Such lines will be of no use to a provider that has not already purchased, or has imminent plans, authorization, and funding to purchase such items. The provider should also be required to certify that it either has ordered or already has the equipment and has received the necessary training to make use of these facilities. Thus, one aspect of the determination of whether a health care provider has made a "bona fide" request for telecommunications services[16] should be the provider's need for and ability to use the services.

Thus, we propose that when a health care provider requests more than one ISDN line, the provider and the telecommunications company should conduct negotiations regarding the speed, functionality and other needs of the health care provider.[17] If the parties can come to a mutually agreeable plan for meeting those needs. they should be permitted to do so, and the telecommunications company should presumptively be allowed to recover from the Health Care Fund any uncompensated cost of furnishing such services to the health care provider. The

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[16] See NPRM at 103 (asking how to determine whether a health care provider's request for telecommunications services is "bona fide.").

[17] We currently use this approach in working with the schools and libraries for determining the location of facilities under Education First.

Commission should set broad guidelines so that parties can negotiate within a framework of acceptable service parameters for satisfying the provisions of the Act. If the parties cannot reach such agreement, the State commissions should have authority to be the final arbiter of the dispute by determining the discounted services to which the health care provider is entitled. Broad federal guidelines to be used by the states in carrying out the intent of the Act will help to define and clarify the roles of the commissions, the health care providers, and the telecommunications providers.

III. ADVANCED TELECOMMUNICATIONS SERVICES

As the Commission acknowledges, the rules detailing which advanced telecommunications services should be offered to schools, libraries and health care providers, and how these services should be funded, must be "competitively neutral."[18] This means that all telecommunications and information service providers must bear responsibility for providing and funding these services. In addition, any access mandated for an advanced communications service must be considered "technically feasible" and "economically reasonable"[19] -- and thus be included among the services a school, library or health care provider may receive -- only after the recipient has made a showing that it possesses and has the training to use related hardware and software.

We believe that there should be ongoing review of access to technology by both educational institutions and health care providers to determine what additional services may be

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[18] NPRM at 109.

[19] Id.

necessary or helpful. We encourage the Commission to recommend workshops between telecommunication providers and industry members to examine issues related to the types of access needed by different entities so that parties can begin to work together to provide meaningful access to advanced services. We note that the Universal Service Alliance in California proposed an "Advanced Service Working Group" which would help discuss how to disperse advanced communications broadly throughout educational and medical institutions. We endorse the creation of these types of working groups.

IV. THE HIGH COST FUND

A. Existing Subsidies Must Be Identified And Made Explicit.

Competition will quickly dismantle the existing subsidy arrangements. Based on our experience with competitive access provider entry, competitors will enter the high profit areas and customer segments, driving out the contribution which supports statewide averaged pricing. High revenue customers will be lost. The cream-skimming that occurs is directly contrary to the Commission's goal that the rules should not "unreasonably advantage one...class of service provider over another...service provider."[20] Competitive downward pressure on prices will further diminish margins, regardless of cost reduction efforts on our part.

More importantly, while universal service itself is not necessarily incompatible with competition, the subsidized pricing structure which currently supports universal service is entirely inconsistent with competition. The Commission's goal should be to identify subsidies in

[20] NPRM at 17.

the current rates and rate structures and refashion them into explicit, competitively neutral mechanisms.[21]

B. The Fund Should Support the Same Dollars as the Two Existing Support Mechanisms: Carrier Common Line And Current Universal Service Fund

The new federal universal service fund should be sized to cover both the existing Universal Service Fund (which currently serves high cost areas for small telephone companies) and the Carrier Common Line charge which, together with the SLC, recovers the 25% of loop costs currently allocated to the interstate jurisdiction. The new fund should not be limited to reimbursing only small telephone companies, but should be available to all carriers who serve high cost or rural or insular areas. The subsidy must be targeted to a much smaller geographic unit than the entire state so that appropriate high cost areas can be identified and compensated.[22]

The Commission accurately explains that a portion of loop costs is recovered directly from subscribers through flat SLCs.[23] Because the Commission has imposed a limit on what can be charged to residential and single line business customers for loop costs, the residual is recovered through a per minute CCL charge on carriers who buy access from local exchange carriers. We agree with the Commission's analysis that the current CCL charge does not meet the Act's directives that any universal support flow be explicit and nondiscriminatory.[24] The

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[21] See 47 U.S.C. §254(b)(4) and (5).

[22] NPRM at 45. We suggest use of a census block group as the appropriate geographic unit.

[23] NPRM at 112.

[24] NPRM at 113. The Commission has recognized the difficulty in sustaining a per-minute CCL rate in a competitive environment in allowing certain local exchange carriers to bulk bill the CCL. See, for example, Ameritech Operating Companies Petition for a Declaratory Ruling and

CCL targets only one group of payers (those who buy access) and irrationally assesses the recovery of nontraffic sensitive plant (local loop) on the basis of usage, which requires high-volume users to subsidize low-volume users.

The CCL charged in its current fashion is not competitively sustainable in today's California market since competition for access is vigorous. Numerous alternatives exist for those who want to bypass our network (particularly for business customers). As we lose business to these competitors, we are forced to recover the subsidy from a smaller group, increasing their costs, and thus increasing the likelihood of even more uneconomic bypass.

Some states may continue to set prices for some services below the full cost of providing those services. That subsidy must be covered by explicit universal service subsidy funds. A combination or federal and state funds may be appropriate, the sum of which covers all subsidies. These funds would replace the current CCL charges as well as all other implicit subsidies. All telecommunications providers must contribute an equal percent of their end user revenues to the funds. .

We also agree with the Commission's proposal to eliminate recovery of Long Term Support ("LTS") through interstate CCL charges[25] and believe that LTS itself should be dismantled. Once the new universal service fund is in place, with a nondiscriminatory and competitively neutral mechanism, LTS is unnecessary. The new fund should be flexibly

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Related Waivers to Establish a New Regulatory Model for the Ameritech Region, FCC 96-58 Order, released February 15, 1996.

[25] NPRM at 115.

designed so that amounts can be added if subsidies subsequently identified by the Commission need to be collected and disbursed in a competitively neutral manner.[26]

C. California Will Soon Be Implementing A Universal Service Fund

California is well on its way to setting up a nondiscriminatory, competitively neutral universal service support fund. The California Public Utilities Commission ("CPUC") issued a decision on July 19, 1995 setting forth proposed rules for its Universal Services program.[27] The proposed rules define Universal Service to include a package of services currently offered by California's local exchange carriers, including (but not limited to) access to dialtone, access to interexchange carriers, touchtone, and directory assistance. A complete list is included on pages 5-6 of the proposed rules attached to the CPUC decision (Appendix C).[28] We endorse this list for primary line residential service.

The California proposed rules call for review of the definition of basic service every three years. It leaves California's existing Universal Lifeline Telephone Service in place, and also identifies a new high-cost voucher fund to support services currently subsidized through internal subsidies from LEC toll and switched access prices. The proposed California fund

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[26] One such subsidy is the Transport Interconnection Charge. The upcoming access reform proceeding may order that the subsidy component of this charge be recovered through the new fund. See our comments in CC Docket 94-1, filed December 11, 1995 at 25.

[27] Re Universal Service, Cal. P.U.C. D.95-07-050, a copy of which is attached hereto as Appendix C.

[28] A current issue before the CPUC is whether a usage component is required for the services to be covered under the definition of Universal Service. If usage is included, the funding must be increased to cover this component.

would be available to any provider agreeing to be a "carrier of last resort" within any particular "geographic serving area," or "GSA," which in California is likely to be defined as a census block group. The source of the funding and the level of the funding have not yet been finally determined. The CPUC is considering a choice between end-user surcharges and a surcharge on the revenues of all providers. We recommend a surcharge on the revenues of all providers.[29]

The amount of universal service funding per line for any GSA will be calculated as the difference between the cost of providing universal service in such area (determined from the Cost Proxy Model) and the current total revenue for such service for that area.[30] It now appears that the "cost" portion of the formula will be determined according to a proxy cost formula, under which an objective, proxy measure of costs is determined for each GSA, rather than using the actual costs of the serving carrier. There are currently two proxy cost models in contention for use in California. The "Cost Proxy Model," or "CPM," which has been jointly developed by Pacific Bell and Dr. Richard Emmerson of INDETEC, International, and the Hatfield Extension of the Benchmark Cost Model, referred to in paragraph 31 of the NPRM. A more complete description of the CPM is attached hereto as Appendix D.

A major advantage of the CPM is its flexibility. A variety of inputs may be used with this model. In the NPRM, the Commission notes that the Cost Proxy Model is based on proprietary information.[31] That is no longer true. With the flexibility that has been designed

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[29] This would not preclude a provider from flowing through this charge to the end user customer via a line item on the bill .

[30] The California plan does not address rural subscribers as a separate category. Rural customers are only an issue when they are in high cost areas. We have found in California that high cost areas include more than just rural areas. We have suburban and even urban areas that do not recover their costs of service.

[31] See NPRM at 33.

into the model, nonproprietary input can be used. Although our results from the model are proprietary since we used proprietary costing information as an input, we have run the model for every local exchange carrier in California using only publicly available information. The model can also be audited independently to ensure that proper inputs and design parameters have been used. Using data primarily available from commercial available databases, the CPM is able to estimate the cost of providing local telephone service down to a 1/4 square mile grid. These costs can then be aggregated up to any larger geographic area, including census block group, wire center, serving area, or entire state. The CPM reflects actual location of subscribers (and thus computes predicted loop lengths) within a census block.

The CPUC is holding hearings in April and May, 1996 to work out details of the universal service system. It intends to issue its decision by August 2, and have the Universal Service in operation by October 1.[32]

D. The California Approach Can Be Used As A Model At The Federal Level

We believe that the California model can be used at the federal level to implement a competitively neutral model for high-cost area funding. The Commission should order that a proxy cost model be used to compute the predicted costs of serving each census block group in the nation. The model is programmed with the most accurate and technically efficient engineering parameters. A proxy cost model is better than using actual costs since using a model

[32] There is currently legislation pending in California, SB207, which, under the version recently passed by the State Assembly, requires the Commission to "develop and implement the [universal service] program on or before the October 1, 1996." SB207, Section 1, Amending Section 739.3(c) of the California Public Utilities Code.

removes the incentive for inefficient operation that comes with allowing recovery for any level of investment or engineering practice. A proxy cost model programs in acceptable engineering practices plus all appropriate shared and common costs, and any support is based on those assumptions.

After determining the appropriate cost model, the Commission should then review the size of the current fund (currently approximately $5 billion nationwide--$730 million for current USF, and about $4.2 billion for CCL) and determine what level of predicted cost can be supported by that fund. This will become the federal benchmark. Those carriers serving census block groups[33] whose costs to serve are above the federal benchmark should be able to get recovery from the Fund for that service equal to the difference between the predicted cost (from the model) and the federal benchmark. Those carriers serving census block groups below the benchmark should not be eligible for federal funds, but may be able to get assistance from a state fund which sets a lower benchmark.[34]

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[33] We support using census block group as the "study area" since it enables us to more precisely target the subsidy to where it is really needed.

[34] As an illustrative example, the fund may be able to support census block groups whose predicted costs are equal to or more than $50 per line, making $50 the federal benchmark. Or, the Commission may decide that it is better to give less than 100% funding to a greater number of census block groups, lowering the federal benchmark, but limiting the funding as well. In either case, any amount not recovered by the carrier which is over that carrier's cost may be able to be recovered through a state mechanism. In California, for example, if the Fund were funding census block groups over $50 at 100%, we could apply to the state fund for the difference between our basic service revenues and our actual costs up to $50. That way, a certain percentage of the high cost of serving those areas would be allocated to the federal jurisdiction, and a portion allocated to the state. (Allocating portions of the cost to both state and federal jurisdictions meets the requirements of section 254(f) of the Act. Accord, Smith v. Illinois Bell, 282 U.S. 133 (1930).)